S&P 500 companies on a roll

Record number beat earnings forecasts

By Matt Krantz
USA TODAY

The stock market might seem boring lately, but earnings are providing plenty of excitement.

Nearly half the companies in the Standard & Poor's 500 index have reported their third-quarter earnings, and a record 81 percent have delivered results that are better than expected, says John Butters of Thomson Reuters. If the season ends this way, it'll beat the record set in the third quarter of 2009, when 79 percent of companies beat expectations.

Companies actually have beaten expectations handily for a while. In fact, three-quarters of companies topped expectations on average the past four quarters, Butters says. But this past quarter was off the charts, considering that 62 percent of companies historically beat expectations. Just 13 percent of companies have missed profit forecasts, and 5 percent have matched them this quarter, Butters says.

"Investors are getting surprised with the strength of corporate earnings," says Michael Farr of Farr Miller & Washington.

Investors weren't in a celebratory mood Wednesday, with the Dow Jones industrial average falling 43 points to 11,126. But the market has rebounded strongly from its lows this year, and the Dow is near a bull market high.

A close look at earnings reports show:

■ Strong earnings growth. Despite worries about the economy stalling, S&P 500 companies have posted 36 percent earnings growth in the third quarter, says S&P's Howard Silverblatt. While that's down from 51 percent growth in the second quarter, it's the best third-quarter growth in at least 20 years.

■ Glimmers of better top-line growth. S&P 500 companies are expected to post underwhelming 6 percent revenue growth for the quarter, Silverblatt says. But there are surprises here, too, including the industrial sector, which is a big job creator, he says. Industrial companies are posting 10 percent revenue growth, up from the 8 percent growth expected.

■ Promising results from key sectors. Companies in the financial and technology sectors are the biggest sources of positive surprises, Butters says. Financials' earnings are up 92 percent, vs. the 71 percent expected, and tech is up 36 percent, vs. the 32 percent forecast.

The longer the recovery goes on, the harder it will be for companies to keep the clip of growth up. Analysts, in turn, are calling for more subdued growth rates next year of 11.6 percent, 10 percent and 13.3 percent in the first, second and third quarters, Butters says. While corporate earnings are healing, the recovery will be slow, Farr says. "You should put away the party horns, but at least you can stop pulling your hair out," he says.